

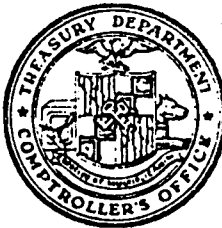
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RECOMMENDATIONS AND FINDINGS
OF THE
MARYLAND ELECTRONIC FUNDS TRANSFER SYSTEMS ADVISORY PANEL
TO THE
GOVERNOR AND GENERAL ASSEMBLY OF MARYLAND



December 1, 1978



LOUIS L. GOLDSTEIN
COMPTROLLER OF THE TREASURY
STATE TREASURY BUILDING
P. O. BOX 466
ANNAPOLIS, MARYLAND 21404
269-3801

December 1, 1978

To His Excellency
Blair Lee III
Acting Governor of Maryland

To The Honorable
General Assembly of Maryland

It is my privilege to present the final report of the Maryland Advisory Panel on Electronic Funds Transfer Systems.

The Panel, which was established by Chapter 540, Acts of 1977, was directed to study the implications of electronic funds transfer systems (EFTS) on the State and the citizens of Maryland. In accordance with Chapter 540, the Panel placed particular emphasis upon the study of the impact of EFTS on banks, other depository institutions, business, government, consumers, and the privacy rights of the citizens of Maryland. The Panel also evaluated the benefits and drawbacks of the use of EFT by the State of Maryland in the administration of its pay system, and monitored the introduction and impact of EFTS in other states and the federal government. The Panel was directed to report its findings and recommendations to the Governor and General Assembly. An interim report of the Panel was issued on December 1, 1977.

Since its first meeting on September 19, 1977, the Panel has met regularly to hear speakers, evaluate reports, and exchange ideas on what was recognized quickly as a continuously changing, broad, technical, and complex subject. The Panel agreed unanimously to open all of its meetings to the public. The speakers heard by the Panel represented virtually all of the groups that are affected by EFTS. Many Panel members attended a tour of the EFT facilities of the First National Bank of Maryland.

December 1, 1978
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The Panel used extensively the exhaustive Final Report of the National Commission on EFT (October 28, 1977). The Panel's staff prepared a summary of each recommendation contained in the National report.

The Panel divided itself into four committees in order to conduct detailed studies of the various aspects of EFTS and to prepare findings and recommendations for consideration by the full Panel. The four committees were the Consumer Issues Committee, the Developmental and Technology Issues Committee, the Roles of Federal Government Committee, and the State Law Committee. The substance of this Final Report is the findings and recommendations drafted by the committees, and approved by the Panel.

Very recently, Congress passed legislation concerning EFT as an amendment to the Consumer Credit Protection Act. Cong. Rec. 13067 (daily ed. Oct. 14, 1978). It has not, as yet, been signed by the President. The legislation primarily addresses consumer issues. It is expected that the President will sign this bill, and, if signed, the law should be consulted if you address the issues concerning the consumer and EFT. **

EFT is young and continuously changing. New issues will continue to arise. The Panel believes, however, that it has addressed properly the principal issues currently facing the State of Maryland and its citizens. The Panel urges that you consider carefully the findings and recommendations of this report.

Cordially yours


Louis L. Goldstein
Chairman, Advisory Panel

LLG:cp

**P.S. President Jimmy Carter signed H.R. 14279 (The Electronic Fund Transfer Act, an amendment to the Consumer Credit Protection Act) on November 10, 1978.

ADVISORY PANEL TO STUDY THE MOVEMENT TOWARDS
ELECTRONIC FUNDS TRANSFER SYSTEMS

Louis L. Goldstein, Chairman
William S. James
William L. Wilson
John N. Ruth
Alan T. Fell
William H. Cowie, Jr.
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Al Muehlberger
W.H. Holden Gibbs
Charles A. Knott, Jr.

Comptroller of the Treasury of Maryland
Treasurer of the State of Maryland
Bank Commissioner (Retired)
Chief, Consumer Protection Division
Commissioner of Consumer Credit
Maryland Banker's Association
Commercial Bank Representative
Maryland Retail Food Dealers Rep.
Maryland State Chamber of Commerce
Commercial Establishments Rep.
Maryland Retail Merchants Association Rep.
Maryland State Bar Association
Consumer Representative
Consumer Representative
Other Affected Groups
Consumer Representative
Consumer Representative
Other Affected Groups
Local Government Representative
State Bank Commissioner
Deputy State Bank Commissioner

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Legal Staff Coordinator
Law Clerk
Law Clerk
Law Clerk
Law Clerk
Secretary to the Comptroller
Secretary

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Page

I. Consumer Issues.

Privacy - Restrictions should be placed on the method of obtaining and the type of EFTS information available. Consumer Credit Reporting Agencies may receive EFTS data related to extension of credit. Other EFTS data should be transferred only with the consent of the consumer, or by appropriate judicial order. EFT information should not be sold or exchanged for marketing purposes.

1

Establishing an EFTS Account - Debit card issuers may distribute unsolicited debit cards without credit features only to their own customers. The personal identification number (PIN) should not accompany the distribution of the card. Rights and liabilities of the users should be disclosed. The card would not be effective until a contract is signed. Waiver of statutory safeguards should be prohibited. The card issuer would be liable for losses incurred prior to signing the contract for the card.

2

Reversibility - EFT users should not have the right to reverse debit transactions.

2

Operating an EFT Account - There should be written receipt for transactions. Account errors should be corrected according to the Fair Credit Billing Act. Overdraft features of an EFT account should be optional. Statements should be rendered monthly on active demand deposit EFT accounts and at least quarterly on inactive accounts.

3

Theft and Error - The consumer should have no more liability on a lost or stolen EFT card than on a credit card.

4

Garnishment - Maryland law should be changed to reflect the protections found in federal legislation.

5

Public Education - Providers of EFT services should be encouraged to educate the public about EFTS.

6

II. Developmental and Technology Issues.

Simple Parity - State banks should be allowed the same privileges as national banks with respect to EFTS.

5

Services - Authorized bank services should include intrastate debit and deposit-taking services, intrastate credit functions, interstate debit services and interstate credit functions.

5

Non-Depository Institutions Versus Banking Institutions - Although not regulated, certain non-bank institutions perform bank-like functions. They have EFTS systems available. There is a division of opinion whether non-depository institutions should be regulated in providing EFTS services as banking institutions are regulated. It would be premature to make a recommendation at this time.

6

Multiple Systems - There should be no prohibition against multiple systems for EFT.

6

Availability of Membership and Services - A group of institutions desiring to establish an EFT system should be open to membership and services by other institutions as long as costs are shared equitably.

7

Industry Competition - Unrestricted competition is recommended between the data processing and communications industries in the EFT terminal and system marketplace.

7

III. Roles of the Federal Government.

A National Development Corporation for U.S. Payment Systems - It is recommended that the federal government be urged to form and fund a National Development Corporation for U.S. Payments Systems.

7

Relationship Between Regional Automated Clearing Houses and the Federal Reserve - The federal government should be encouraged to legislate the relationship between ACHs and the Federal Reserve.

8

Uniform Security and Examination Procedures - The federal government should be encouraged to enact uniform security and examination procedures for providers of EFT services. 8

Revision of State and Federal Criminal Codes - Criminal codes should be revised to deal with EFT fraud, unauthorized use, theft, and fraudulent alteration of EFT data. 9

State Criminal Code - State law should be enacted to protect privacy and criminal abuses not covered by federal law. 9

Permanent EFT Committee - EFT is in its infancy and is continuously changing. To monitor these changes, a permanent EFT committee should be established. 10

IV. State Law.

State law should be clarified to provide whether foreign banking institutions and others may or may not operate point of sale terminals within the State which provide "banking transactions". 11

V. Use of EFT By the State of Maryland For Its Payroll System.

As of January 1, 1979, the Central Payroll Bureau will be in a position to establish a direct deposit payroll operating as a parallel system to its regular system. It would appear from the studies that have been made taking into consideration the nebulous cost items and the computation of loss of float, that from an economic standpoint, it probably would not be of benefit to the State to change to a direct deposit payroll system. On the other hand, convenience to the employee and more importantly the acceptance by the employee, may make the installation of such a system a valuable fringe benefit to State employees. 11

FINDINGS AND RECOMMENDATIONS

I.
CONSUMER ISSUESPrivacy

Legal safeguards should be enacted to restrict who can have access to the information and how that access is to be obtained. The restrictions should be similar to the suggested federal legislation, but greater detail should be specified in state law. EFT data may be transferred to a third party in the private sector only for the intended purpose of said party to use the information in connection with an application for or extension of credit to the consumer. The terms and history of prior extensions of credit may be communicated to a Consumer Credit Reporting Agency; however, non-credit transactions may not be so communicated. Current levels of information disclosure should neither be broadened nor restricted with the advent of EFT. Such information shall be limited to the terms and history of prior extensions of credit granted to the consumer.

No other information may be transferred to any third party unless the consumer consents thereto or it is disclosed in response to a subpoena or summons, or by appropriate court order, a copy of which has been served upon the consumer in time for the consumer to have an opportunity to challenge said summons or subpoena.

The sale or exchange of EFT information should be controlled so that it is not used for mailing lists, sale of goods

or services, or construction of profiles of individual consumers to be used for sale or other marketing purposes. Any provider may solicit existing customers.

Establishing An EFT Account

Debit card issuers may distribute unsolicited debit cards without credit features only to their own depositors, provided that the personal identification number (PIN) does not accompany the card and that each distribution is accompanied by a full disclosure of the recipient's rights and liabilities and a contract for the recipient to sign to indicate his acceptance of the card. After the card issuer receives the card holder's signed contract, it would be permitted to send the customer the PIN needed to access the account. The card issuer would bear liability for any loss due to unauthorized use prior to the date the contract is signed. Waiver of protections should not be allowed. Renewal and substitution cards should be permitted.

Reversibility of EFT Transactions

The Advisory Panel rejected a recommendation that stop payment/reversibility of EFT transactions should be similar to current check writing and credit card practices.

The proponents and opponents of reversibility of EFT transactions agree that the principal issue is whether or not one views EFT as a system to allow for, and replace to some extent, cash transactions, or whether it is essentially a system to replace credit card and check transactions.

The proponents of reversibility contend that EFT is a substitute for checks and credit and therefore should carry the same right of reversibility. They argue that reversibility is the only self-enforcing mechanism that the consumer can use to protect himself against defective merchandise and unscrupulous merchants. The proponents also claim that, even with reversibility, merchant users will benefit from EFT because of reduced paper flow, automatic availability of funds, and knowledge that there is money to back the customer's purchase.

The opponents of reversibility of EFT transactions argue that the National EFT Commission declined to recommend reversibility, that merchants who use EFT would have to be careful that the consumer is reputable which could result in inconvenience and delay, and that mandatory reversibility is tantamount to legislation establishing retailer refund policies. The opponents also argue that reversibility will not protect the consumer from the unscrupulous merchant because that merchant is unlikely to use EFT if reversibility is available, that the increased cost of reversibility will be borne by the consumer, that consumer's can retain reversibility rights by writing a check instead of using EFT, and that there is little evidence that reversibility is necessary.

Operating An EFT Account

There should be written receipts for transactions. Account errors should be corrected with protection afforded similar to Fair Credit Billing Act. (See Md. Ann. Code Com.

Law § 12-511). Overdraft "privileges" should not be an automatic feature of EFT accounts; legislation should require specific application for overdraft from the consumers. There should be options available wherein the consumer can have an EFT account without overdraft "privileges" should the consumer so desire. Statements should be rendered monthly on active demand deposit EFT accounts and at least quarterly on inactive ones.

Theft and Error

The consumer should have no more liability on a lost or stolen EFT card than on a credit card. Such protection should be spelled out in the law.

Garnishment

Maryland law should be changed to reflect the protections found in federal legislation.

Public Education

EFT presents a broad range of financial services heretofore generally unknown to the consumer. The consumer must be made aware of how the various EFT services will affect him so that he can make informed decisions regarding which EFT services best suit his particular needs. It is recommended that providers of EFT services be encouraged to educate the public in this regard.

II. DEVELOPMENTAL AND TECHNOLOGY ISSUES

Simple Parity

Simple parity legislation should be passed which allows state banks the same privileges as national banks unless otherwise prohibited by law and approved by the State Bank Regulations Board.

The committee believes that national banks should not obtain competitive advantages over state banks. Should this situation occur as a result of Congressional action, we believe it is unlikely that a special session of the State legislature would be called to correct such disadvantage and therefore recommend the enactment of this legislation.

It is too early to tell whether any problems would come about from national legislation. Both state and national legislation will probably be enacted in 1980 at the earliest.

Services

Services which should be permitted include: intrastate debit services, intrastate deposit-taking services, intrastate credit functions, interstate debit services, and interstate credit functions.

With regard to interstate deposit-taking services, the committee believes consumers will best be served by allowing EFT across state lines within natural market areas on a reciprocal basis. However, because this involves the whole question of interstate banking with its multiple financial and/or political complexities, the committee is not yet prepared to

recommend permissive legislation. Any interstate functions by foreign banks in Maryland should only be granted if the same power is allowed by the state where the foreign bank is domiciled. Full reciprocity must exist in all exchanges of interstate services.

Non-Depository Institutions Versus Banking Institutions

Certain non-depository institutions imitate banking by cashing checks and dispensing cash against a previously established line of credit. Presently, their terminals can be installed without the approval or consideration of any regulatory agency. Most members believe that the laissez-faire private enterprise system should remain unregulated while a few believe that, if one is regulated, all should be regulated. They contend that the various functions of banking are becoming so diffused among financial institutions that it is unfair to impose regulatory burdens on certain segments of this community while exempting others. Certain financial type companies have begun practices which could be considered banking transactions and a number of court cases are pending regarding these. Before proceeding with any law-making recommendations in this area, the courts' decisions on these suits should be awaited.

Multiple Systems

The committee recommends that laws should not be enacted which would prohibit multiple systems for EFT for the various types of institutions (banks, savings and loans, or credit unions) and regardless of charter (federal or state).

Availability of Membership and Services

The committee recommends that any consortium or association of institutions desiring to establish an electronic funds transfer system should be open to membership and services by any other institution as long as costs are shared equitably.

Industry Competition

The public interest would best be served by allowing unrestricted competition between the data processing industry and the communications industry in the EFT terminal and system marketplace. Artificial barriers to entrance and exit from the market imposed by either state or federal requirements and procedures should not apply to EFT terminal equipment systems. Any policies adopted should be those advocating laissez-faire.

III.

ROLES OF THE FEDERAL GOVERNMENT

A National Development Corporation for U.S. Payments Systems

It is recommended that the federal government be urged to form and fund a National Development Corporation for U.S. Payments Systems. This recommendation was made by Verne S. Atwater, a member of the National Committee on EFTS. The corporation would be similar in form to the Corporation for Public Broadcasting. It would make grants to public and governmental organizations in order to support promising technological research and development programs. Security and privacy of this nation's vital payments system would be its charge. The research effort in EFTS would be comparable in some respects to

programs now sponsored by the Transportation Systems Center to apply advanced technology to the safety and modernization of the public transportation systems in the public interest.

There would be a reciprocal flow of information between this federal corporation and the various state committees. Maryland's committee is discussed in a separate recommendation.

Relationship Between Regional Automated Clearing Houses and the Federal Reserve

The federal government should decide and legislate the relationship between the regional clearing houses and the Federal Reserve. At the present time, there are twelve regional ACHs. Ten are operated free by the Federal Reserve. Two are operated without the Federal Reserve. New York, the largest ACH, is operated without Federal Reserve assistance. The federal government should decide just what the rule of the Federal Reserve is. We do not suggest any solutions to this problem, but we do recommend that Congress address and resolve the issue.

Uniform Security and Examination Procedures

Security and privacy are the two most urgent problems facing EFT systems in the eyes of the public. Without favorable public opinion, no EFT payments system will succeed. Since EFT recognizes no state boundaries, the federal government must enact legislation to placate public fears.

The need for federal action is twofold. EFT systems are interstate and also expensive. For example, the State Banking Department of Maryland cannot economically justify the expense of an expert computer examination force. Even if we could,

half of the banks in Maryland (i.e., the national banks) would not be examined. The same can be said for the thrift institutions.

At the present time, the State Banking Department relies on computer system examinations made by federal regulators as permitted by law.

Revision of State and Federal Criminal Codes

Modern criminal codes which recognize EFT as a payments system separate and distinct from the one which has developed our present code must be enacted. The federal government should be urged to act, but the State of Maryland should also enact its own legislation. We suggest this be turned over to an appropriate legislative committee of the Maryland legislature.

Such legislation should prohibit the following:

1. Introduction of fraudulent data into a computer system.
2. Unauthorized use of computer related facilities.
3. Fraudulent or malicious alteration or destruction of computer data, information or files.
4. Theft, by electronic means or otherwise, of money, financial instruments, property, services, software or data.

State Criminal Code

In tandem with the federal government, the State should enact legislation to cover criminal offenses and the protection of privacy in areas not embraced by the federal law.

Permanent EFT Committee

Because EFT is in its infancy and experimental stages, we do not feel that all encompassing restrictive legislation should be enacted. Such legislation inadvertently may prevent future desirable developments. We do feel that EFT progress should be monitored and, therefore, recommend the appointment of a nine person committee consisting of the State Comptroller of the Treasury, the State Treasurer, State Bank Commissioner, an expert representative of the Maryland Banker's Association, an expert from a non-financial industry developing its own electronic payments system, an expert representative from the thrift industry, a knowledgeable consumer representative and two public members. The chairman of this committee will be appointed by the Governor.

Section 476 et seq. of Article 41 creates our current Advisory Panel to prepare a comprehensive report for the Governor and the General Assembly. However, the Panel's existence terminates on December 1, 1978. The statutory panel created by Section 477 is too large and unwieldy for effective continuous service as an adjunct of the State Bank Commissioner's Office. The permanent committee could take advantage of both state and federal statutes and provide detached analyses for the State Bank Commissioner, the Governor and the General Assembly as the progress of electronic funds transfer services expand. Its functions would be both to recommend appropriate legislation and to provide advice whenever proposals present themselves to the Governor and the General Assembly.

IV. STATE LAW

Some of the transactions that may take place at point of sale terminals given the current technology (i.e., the acceptance of deposits) could be considered transactions which historically have been limited by the laws of this State to banking institutions (i.e., banks, savings and loan associations, trust companies, savings banks, credit unions, etc.) chartered under the laws of this State or to national banking institutions having their principal office in this State. The law should be clarified to provide whether foreign banking institutions and others may or may not operate point of sale terminals under the State which provide "banking transactions".

V. USE OF EFT BY THE STATE OF MARYLAND FOR ITS PAYROLL SYSTEM

The following letter concerning use of EFT by the State of Maryland for its payroll system was submitted by Senator William S. James, Maryland State Treasurer, to the Advisory Panel. Senator James has valuable expertise in this area because of his involvement with a committee studying the Maryland payroll system. The Advisory Panel voted to receive the letter as its findings and recommendations on this topic. Supporting documents marked as exhibits D through F are in the appendix of this report.

William S. James
Clerk



State Treasurer's Office

P.O. Box 666

Annapolis, Maryland 21404

September 25, 1978

The Honorable Louis L. Goldstein
State Comptroller
Chairman of the Advisory Panel to
Study the Movement Toward Electronic
Funds Transfer Systems
State Treasury Building
Annapolis, Maryland 21404

Mr. Chairman:

House Bill No. 1302 passed during the 1978 session of the General Assembly created the referenced Advisory Panel to study electronic funds transfer systems. Under Section 480-2 the Panel was charged with "evaluate the benefits and drawbacks of the use of electronic funds transfer by the State of Maryland in the administration of its pay system."

The State Treasurer, William S. James, a member of the Advisory Panel, was assigned the task by the Chairman to evaluate the benefits and drawbacks, as it pertains to the State's payroll system. After considerable thought the following considerations were determined applicable to such evaluation:

1. Loss of float for State investment
2. Ability to recover funds paid by error
3. Simplicity of reconciling payroll accounts
4. Elimination of lost checks
5. Elimination of forged checks
6. Elimination of issuing duplicate checks
7. Elimination of stopping payment on checks
8. Elimination of filing paid checks
9. Elimination of space for storage of paid checks

The Honorable Louis L. Goldstein
September 25, 1978
Page Two

10. Elimination of cost of checks
11. Elimination of space of storage of unused checks
12. Elimination of time lost by employees depositing his check
13. Elimination of time of agency to pick up payroll
14. Type and method and distributing receipt to employee
15. Establishing a checking account for employees not having an account
16. Cost of clerical time for payroll operation
17. Convenience of the employee
18. Acceptance by the employee
19. Any other pertinent considerations

In the course of evaluating the various considerations as outlined above, it was believed desirable to examine in detail an operating unit utilizing the electronic funds transfer system for its payroll system. Accordingly, the largest unit in the immediate vicinity is that of the City of Baltimore. The State Treasurer previously had examined the so-called Direct Deposit Payroll of Baltimore City and a report dated July 14, 1976 (Exhibit A) was prepared and is included for your consideration. An update of that study was done on June 12, 1978 (Exhibit B) and a copy of that report is also included for your information.

It should be noted that in the two-year span from 1976 to 1978, there was an overall increased participation of only two percent of its total employees.

A cost study was attempted during June, 1976 relating to changes in the payroll system, Initiation of additional forms, elimination of paychecks and importantly the cost of loss of float. A copy of the report outlining the cost projections is also enclosed (Exhibit C) and you will note that where the interest lost was \$161,090.65 in 1976 at a 4-1/2% interest return, as of 1978 with a 7-1/2% interest rate the loss would be \$268,484. A typical cost benefit evaluation prepared by the Maryland National Bank sets forth the following:

(Exhibit D).

You will note that assuming a 25% employee participation, the

The Honorable Louis L. Goldstein
September 25, 1978
Page Three

estimated annual savings would be \$7,725. Making up this savings is item 9 and 10 under the portion labeled Annual Savings, 9 being "estimated value of direct deposit as an employee benefit" in the amount of \$2,100, and item 10 "estimated value of lost time spent in banks cashing/depositing checks" \$4,510. These two items practically account for the entire savings and appear to be very nebulous as to real dollar savings.

As of January 1, 1979, the Central Payroll Bureau will be in a position to establish a direct deposit payroll operating as a parallel system to its regular payroll system. It would appear from the studies that have been made, taking into consideration the nebulous cost items and the computation of loss of float, that from an economic standpoint it probably would not be of benefit to the State to change to a direct deposit payroll system. On the other hand, convenience to the employee and more importantly the acceptance by the employee may make the installation of such a system a valuable fringe benefit to State employees.

Respectively submitted,

William S. James
WILLIAM S. JAMES, TREASURER

WSJ:jpd
Encl.

STAMP
OFFICE
CONTROLLER
SEP 26 1978

HOUSE BILL No. 1302.

Introduced by Delegates Maurer and Kopp

Read and Examined by Proofreader:

Proofreader.

Proofreader.

Sealed with the Great Seal and presented to the Governor, for
his approval this _____ day of _____
at _____ o'clock, _____ M. -

Speaker.

CHAPTER _____

AN ACT concerning	42
Advisory Panel to Study the Implications of	45
Electronic Funds Transfer Systems	46
FOR the purpose of creating a Panel of certain members to	50
study the implications of Electronic Funds Transfer	51
Systems for the State and for the citizens of	52
Maryland; providing that the Panel report its	52
findings and recommendations to the Governor and the	53
General Assembly; providing for meetings of the	53
Panel; providing the Panel with the power to appoint	54
necessary temporary personnel; and providing that	54
the Panel's existence terminate upon a certain date.	
BY adding to	56
Article 41 - Governor - Executive and	59
Administrative Departments	60
Sections 476 through 482 482, inclusive, to be under	62
the new subtitle "47 Advisory Panel to Study	63
the Movement toward Electronic Funds	

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.
[Brackets] indicate matter stricken from existing law.
~~Strike-out~~ indicates matter stricken from bill.
Underlining indicates amendments to bill.

Transfer Systems"	63
Annotated Code of Maryland	65
(1971 Replacement Volume and 1976 Supplement)	66
SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That new Sections 476 through 482, inclusive, to be under the new subtitle "47 Advisory Panel to Study the Implications of Electronic Funds Transfer Systems" be and they are hereby added to Article 41 - Governor - Executive and Administrative Departments of the Annotated Code of Maryland (1971 Replacement Volume and 1976 Supplement) to read as follows:	70 71 72 73 75 77 78
Article 41 - Governor - Executive and Administrative Departments	81 82
47	86
ADVISORY PANEL TO STUDY THE MOVEMENT TOWARDS ELECTRONIC FUNDS TRANSFER SYSTEMS	87 88
476.	91
THERE IS AN ADVISORY PANEL TO STUDY THE IMPLICATIONS OF ELECTRONIC FUNDS TRANSFER SYSTEMS FOR THE STATE AND FOR THE CITIZENS OF MARYLAND. IT SHALL BE REFERRED TO AS THE "PANEL".	94 95 96
477.	98
THE PANEL SHALL INCLUDE:	101
(1) THE COMPTROLLER OF THE STATE OF MARYLAND, WHO SHALL BE CHAIRMAN OF THE PANEL;	103
(2) THE TREASURER OF THE STATE OF MARYLAND;	105
(3) THE BANK COMMISSIONER;	107
(4) THE CHIEF OF THE DIVISION OF CONSUMER PROTECTION DIVISION OF THE STATE LAW DEPARTMENT;	109 110
(5) <u>THE COMMISSIONER OF CONSUMER CREDIT;</u>	112
(6) <u>A REPRESENTATIVE OF THE MARYLAND BANKERS ASSOCIATION AND A REPRESENTATIVE OF COMMERCIAL BANKS WHICH USE THESE SYSTEMS;</u>	114 115
(7) <u>A REPRESENTATIVE OF THE MARYLAND RETAIL FOOD DEALERS;</u>	117
(5) (8) <u>A REPRESENTATIVE OF THE MARYLAND CHAMBER OF COMMERCE AND A REPRESENTATIVE OF COMMERCIAL ESTABLISHMENTS WHICH USE THESE SYSTEMS;</u>	119 120

(6) (9)	A REPRESENTATIVE OF THE MARYLAND RETAIL MERCHANTS ASSOCIATION;	122
(7) (10)	A REPRESENTATIVE OF THE MARYLAND STATE BAR ASSOCIATION;	124
(8) (11)	AT LEAST 4 PERSONS TO REPRESENT THE INTERESTS OF OTHER AFFECTED GROUPS INCLUDING CONSUMERS. THESE PERSONS SHALL BE APPOINTED BY THE GOVERNOR. FOUR CONSUMER MEMBERS REPRESENTATIVE OF THE POPULATION OF THE STATE WHO ARE FREE OF ANY CONFLICT OF INTEREST. THESE PERSONS SHALL BE APPOINTED BY THE GOVERNOR; AND	126 128 130 132
(12)	AS MANY AS THREE ADDITIONAL PERSONS REPRESENTING OTHER AFFECTED GROUPS NOT OTHERWISE INCLUDED. THESE PERSONS SHALL BE APPOINTED BY THE GOVERNOR.	134 135
478.		137
	UNLESS PROVIDED ELSEWHERE, MEMBERS OF THE PANEL SHALL RECEIVE NO COMPENSATION FOR THEIR SERVICES AS SUCH, BUT THEY MAY BE REIMBURSED FOR PROPER AND NECESSARY EXPENSES INCURRED IN THE DISCHARGE OF THEIR DUTIES ON THE PANEL IN ACCORDANCE WITH THE STANDARD TRAVEL REGULATIONS.	140 142 144
479.		146
	THE PANEL SHALL MEET AT THE CALL OF EITHER THE CHAIRMAN OR A MAJORITY OF MEMBERS.	149
480.		151
	THE PANEL SHALL:	153
(1)	CONTINUE TO STUDY THE IMPLICATIONS FOR THE STATE OF MARYLAND AND FOR ITS CITIZENS OF THE MOVEMENT FROM OUR PRESENT PAYMENT SYSTEMS CHARACTERIZED BY CASH, CHECKS, AND CREDIT CARDS, TO A SYSTEM CHARACTERIZED BY THE ELECTRONIC TRANSFER OF FUNDS, WITH PARTICULAR EMPHASIS ON THE IMPACT ON BANKS, OTHER DEPOSITORY INSTITUTIONS, BUSINESS, GOVERNMENT, CONSUMER CONSUMERS, AND THE PRIVACY RIGHTS OF THE CITIZENS OF THE STATE OF MARYLAND.	156 157 158 159 160 161
(2)	EVALUATE THE BENEFITS AND DRAWBACKS OF THE USE OF ELECTRONIC FUNDS TRANSFER BY THE STATE OF MARYLAND IN THE ADMINISTRATION OF ITS PAY SYSTEM.	163 164
(3)	MONITOR THE INTRODUCTION AND IMPACT OF ELECTRONIC FUNDS TRANSFER SYSTEMS IN OTHER STATES AND IN THE FEDERAL GOVERNMENT.	166 167
(4)	REPORT ITS FINDINGS TO THE GOVERNOR AND THE GENERAL ASSEMBLY IN AN INTERIM REPORT ON DECEMBER 1, 1977	169 170

HOUSE BILL No. 1302

AND A FINAL REPORT ON DECEMBER 1, 1978.

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(5) MAKE RECOMMENDATIONS TO THE GENERAL ASSEMBLY TO ASSURE THAT THE INTERESTS OF THE STATE OF MARYLAND AND ITS CITIZENS ARE APPROPRIATELY SAFEGUARDED IN ELECTRONIC FUNDS TRANSFER SYSTEMS ~~INTO~~ IN THE STATE OF MARYLAND. THESE RECOMMENDATIONS SHALL ACCOMPANY FUNDING GIVEN THE GOVERNOR AND THE GENERAL ASSEMBLY ON DECEMBER 1, 1978.

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481.

THE PANEL MAY SEEK FUNDS FROM THE FEDERAL GOVERNMENT, FOUNDATIONS, AND PRIVATE SOURCES IN ADDITION TO STATE FUNDING.

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~~482.~~

~~THE PANEL MAY EMPLOY TEMPORARY PROFESSIONAL AND CLERICAL PERSONNEL AND CONSULTANTS NECESSARY TO PERFORM THE DUTIES ASSIGNED BY THIS SECTION AS PROVIDED IN THE STATE BUDGET.~~

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483 ~~482.~~

UNLESS EXTENDED BY THE GENERAL ASSEMBLY, THE PANEL'S EXISTENCE TERMINATES ~~WITH THE END OF THE 1978 SESSION OF THE GENERAL ASSEMBLY ON DECEMBER 1, 1978.~~ ALL RECORDS, REPORTS, AND OTHER MATTERS PERTAINING TO THE WORK OF THE PANEL SHALL BE TRANSFERRED TO THE HALL OF RECORDS UPON TERMINATION OF THE PANEL'S EXISTENCE, SUBJECT TO THE APPROVAL OF THE STATE ARCHIVIST.

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SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 1977.

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Approved:

Governor.

Speaker of the House of Delegates.

President of the Senate.

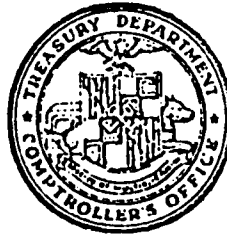


Exhibit B

LOUIS L. GOLDSTEIN
COMPTROLLER OF THE TREASURY
STATE TREASURY BUILDING
P. O. BOX 466
ANNAPOLIS, MARYLAND 21404
269-3801

December 1, 1977

The Honorable Blair Lee III
Acting Governor of Maryland
State House
Annapolis, Maryland 21404

Honorable Steny H. Hoyer
President of the Senate
H-107, State House
Annapolis, Maryland 21401

Honorable John Hanson Briscoe
Speaker of the House of Delegates
H-102, State House
Annapolis, Maryland 21401

Dear Governor Lee, President Hoyer, and Speaker Briscoe:

Pursuant to Chapter 540, 1977 Laws of Maryland, I am pleased to submit to the Maryland General Assembly this interim report of the Advisory Panel to Study the Movement Toward Electronic Funds Transfer Systems (EFTS).

Chapter 540 was signed by Acting Governor Lee on May 17, 1977, and became effective on July 1, 1977. The Act directs that an advisory panel be established to study the implications of EFTS on the State and the citizens of Maryland and that the panel report its findings and recommendations to the Governor and the General Assembly. Consistent with the Act's specifications, our Panel includes the Maryland State Comptroller, Treasurer, Bank Commissioner, Chief of the Consumer Protection Division of the Office of the Attorney General, the Commissioner of Consumer Credit, and the Director of the Division of Building, Savings and Loan Associations. Also included are representatives of the Maryland Banker's Association, commercial banks which use EFTS, the Maryland Retail Food Dealers, the Chamber of Commerce, the commercial establishments which use EFTS, the Maryland Retail Merchants Association, and the Maryland State Bar Association. Additionally, the Governor appointed to the Panel four consumer representatives, a representative from local government, and two from other affected groups. A list of the Panel members is appended to this interim report.

The Panel, at its organizational meeting, designated Stanford D. Hless, Esquire, as its Coordinator. A support staff to assist the Panel was assembled. In order to keep expenses as low as possible, the support staff was drawn principally from Maryland State government employees. The Panel unanimously agreed that all of its meetings would be open to the public.

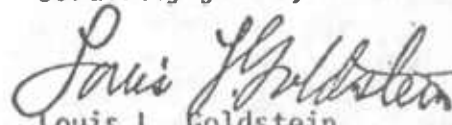
It quickly became apparent to the Panel that the subject matter of EFTS is broad, technical and complex. Although many members of the Panel possess sophisticated knowledge with respect to EFTS, it was decided that, in order to clarify the focus of the Panel's study, all of the Panel members should have a thorough understanding of EFTS. Therefore, at the first several meetings, the Panel educated itself by scheduling and listening to presentations from EFTS experts. These experts represented government, banking and suppliers of EFTS equipment. Extensive question and answer sessions followed the presentations. For example, the Panel heard from James O. Howard, Jr., Esquire, who is the general counsel for the National Commission on Electronic Funds Transfer. His remarks were particularly helpful because he identified potential areas of State involvement with EFTS. Other speakers approached the subject of EFTS from several perspectives. The Panel heard a representative from AT&T explain the reasons why AT&T believes EFTS is inevitable and how the AT&T system works. We also listened to Mr. Robert Hecht, who represented Financial Management Services, Inc., a corporation whose shareholders are Maryland savings and loan associations, request that the Panel consider methods of assuring that savings and loans be given the opportunity to compete on an equal basis with commercial banks in providing EFTS services to Maryland residents. The Panel also heard an excellent presentation from Mr. Donald G. Long, Product Manager for IBM, on present and potential advantages and problems in the use of EFTS systems.

In order to study the various aspects of EFTS, the Panel decided to divide into committees. Consistent with its assignment, the Panel, through these committees, shall continue to study the implications for the citizens of the State of moving from our present payment system to EFTS, evaluate the benefits and drawbacks of EFTS with respect to its use by the State as a method of making payments, and monitor the impact of EFTS in other states and in relation to the federal government, as well as examine those other areas mandated to be studied by Chapter 540.

The Panel, in the future, intends to continue to educate itself by hearing from representatives from all affected groups. It is interested in soliciting comments from potential consumers of EFTS services and from regulatory agencies that may become involved with EFTS. The Panel also will study and utilize the recently issued voluminous Report of the National Commission on Electronic Funds Transfer.

The Panel is to report its findings and recommendations by December 1, 1978.

Cordially yours,


Louis L. Goldstein
Chairman, Advisory Panel

October 14, 1978

Bank should give emphasis to assisting new and small business entrants in the agricultural export market, and shall, in conjunction with other relevant Government agencies, including the Commodity Credit Corporation, develop a program of education to increase awareness of export opportunities among small agribusinesses and cooperatives.

SEC. 1917. This title shall take effect upon enactment.

TITLE XX—ELECTRONIC FUND TRANSFERS

SEC. 2001. The Consumer Credit Protection Act (15 U.S.C. 1601 et seq.) is amended by adding at the end thereof the following new title:

TITLE IX—ELECTRONIC FUND TRANSFERS

§ 901. Short title

"This title may be cited as the 'Electronic Fund Transfer Act'.

§ 902. Findings and purpose

"(a) The Congress finds that the use of electronic systems to transfer funds provides the potential for substantial benefits to consumers. However, due to the unique characteristics of such systems, the application of existing consumer protection legislation is unclear, leaving the rights and liabilities of consumers, financial institutions, and intermediaries in electronic fund transfers undefined.

"(b) It is the purpose of this title to provide a basic framework establishing the rights, liabilities, and responsibilities of participants in electronic fund transfer systems. The primary objective of this title, however, is the provision of individual consumer rights.

§ 903. Definitions

"As used in this title—

"(1) the term 'accepted card or other means of access' means a card, code, or other means of access to a consumer's account for the purpose of initiating electronic fund transfers when the person to whom such card or other means of access was issued has requested and received or has signed or has used, or authorized another to use, such card or other means of access for the purpose of transferring money between accounts or obtaining money, property, labor, or services;

"(2) the term 'account' means a demand deposit, savings deposit, or other asset account (other than an occasional or incidental credit balance in an open end credit plan as defined in section 103(l) of this Act), as described in regulations of the Board, established primarily for personal, family, or household purposes, but such term does not include an account held by a financial institution pursuant to a bona fide trust agreement;

"(3) the term 'Board' means the Board of Governors of the Federal Reserve System;

"(4) the term 'business day' means any day on which the offices of the consumer's financial institution involved in an electronic fund transfer are open to the public for carrying on substantially all of its business functions;

"(5) the term 'consumer' means a natural person;

"(6) the term 'electronic fund transfer' means any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, or computer or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account. Such term includes, but is not limited to, point-of-sale transfers, automated teller machine transactions, direct deposits or withdrawals of funds, and transfers initiated by telephone. Such term does not include—

"(A) any check guarantee or authoriza-

tion service which does not directly result in a debit or credit to a consumer's account;

"(B) any transfer of funds, other than those processed by automated clearinghouse, made by a financial institution on behalf of a consumer by means of a service that transfers funds held at either Federal Reserve banks or other depository institutions and which is not designed primarily to transfer funds on behalf of a consumer;

"(C) any transaction the primary purpose of which is the purchase or sale of securities or commodities through a broker-dealer registered with or regulated by the Securities and Exchange Commission;

"(D) any automatic transfer from a savings account to a demand deposit account pursuant to an agreement between a consumer and a financial institution for the purpose of covering an overdraft or maintaining an agreed upon minimum balance in the consumer's demand deposit account; or

"(E) any transfer of funds which is initiated by a telephone conversation between a consumer and an officer or employee of a financial institution which is not pursuant to a prearranged plan and under which periodic or recurring transfers are not contemplated;

as determined under regulations of the Board;

"(7) the term 'electronic terminal' means an electronic device, other than a telephone operated by a consumer, through which a consumer may initiate an electronic fund transfer. Such term includes, but is not limited to, point-of-sale terminals, automated teller machines, and cash dispensing machines;

"(8) the term 'financial institution' means a State or National bank, a State or Federal savings and loan association, a mutual savings bank, a State or Federal credit union, or any other person who, directly or indirectly, holds an account belonging to a consumer;

"(9) the term 'preauthorized electronic fund transfer' means an electronic fund transfer authorized in advance to recur at substantially regular intervals;

"(10) the term 'State' means any State, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any political subdivision of any of the foregoing; and

"(11) the term 'unauthorized electronic fund transfer' means an electronic fund transfer from a consumer's account initiated by a person other than the consumer without actual authority to initiate such transfer and from which the consumer receives no benefit, but the term does not include any electronic fund transfer (A) initiated by a person other than the consumer who was furnished with the card, code, or other means of access to such consumer's account by such consumer, unless the consumer has notified the financial institution involved that transfers by such other person are no longer authorized, (B) initiated with fraudulent intent by the consumer or any person acting in concert with the consumer, or (C) which constitutes an error committed by a financial institution.

SEC. 904. Regulations

"(a) The Board shall prescribe regulations to carry out the purposes of this title. In prescribing such regulations, the Board shall:

"(1) consult with the other agencies referred to in Section 917 and take into account, and allow for, the continuing evolution of electronic banking services and the technology utilized in such services; and

"(2) prepare an analysis of economic impact which considers the costs and benefits to financial institutions, consumers, and other users of electronic funds transfers, including the extent to which additional docu-

mentation, reports, records, or other paper work would be required and the effect upon competition in the provision of electronic banking services among banks and other financial institutions and the availability of such services to different classes of consumers, particularly low income consumers.

"(3) to the extent practicable, the Board shall demonstrate that the consumer protections of the proposed regulations outweigh the compliance costs imposed upon consumers and financial institutions.

"(4) any proposed regulations and accompanying analyses shall be sent promptly to Congress by the Board.

"(b) The Board shall have model clauses for optional use by financial institutions to facilitate compliance with the disclosure requirements of section 905 and to aid consumers in understanding the rights and responsibilities of participants in electronic fund transfers by utilizing readily understandable language. Such model clauses shall be adopted after notice duly given in the Federal Register and opportunity for public comment in accordance with section 553 of title 5, United States Code. With respect to the disclosures required by section 905(a) (3) and (4), the Board shall take account of variations in the services and charges under different electronic fund transfer systems and, as appropriate, shall issue alternative model clauses for disclosure of these differing account terms.

"(c) Regulations prescribed hereunder may contain such classification, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of electronic fund transfers, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith. The Board shall by regulation modify the requirements imposed by this title on small financial institutions if the Board determines that such modifications are necessary to alleviate any undue compliance burden on small financial institutions and such modifications are consistent with the purpose and objective of this title.

"(d) In the event that electronic fund transfer services are made available to consumers by a person other than a financial institution holding a consumer's account, the Board shall by regulation assure that the disclosures, protections, responsibilities, and remedies created by this title are made applicable to such persons and services.

§ 905. Terms and conditions of transfers

"(a) The terms and conditions of electronic fund transfers involving a consumer's account shall be disclosed at the time the consumer contracts for an electronic fund transfer service, in accordance with regulations of the Board. Such disclosures shall be in readily understandable language and shall include, to the extent applicable—

"(1) the consumer's liability for unauthorized electronic fund transfers and, at the financial institution's option, notice of the advisability of prompt reporting of any loss, theft, or unauthorized use of a card, code, or other means of access;

"(2) the telephone number and address of the person or office to be notified in the event the consumer believes that an unauthorized electronic fund transfer has been or may be effected;

"(3) the type and nature of electronic fund transfers which the consumer may initiate, including any limitations on the frequency or dollar amount of such transfers, except that the details of such limitations need not be disclosed if their confidentiality is necessary to maintain the security of an electronic fund transfer system, as determined by the Board;

"(4) any charges for electronic fund transfers or for the right to make such transfers;

"(5) the consumer's right to stop payment of a preauthorized electronic fund transfer and the procedure to initiate such a stop payment order;

"(6) the consumer's right to receive documentation of electronic fund transfers under section 906;

"(7) a summary, in a form prescribed by regulations of the Board, of the error resolution provisions of section 908 and the consumer's rights thereunder. The financial institution shall thereafter transmit such summary at least once per calendar year;

"(8) the financial institution's liability to the consumer under section 910; and

"(9) under what circumstances the financial institution will in the ordinary course of business disclose information concerning the consumer's account to third persons.

"(b) A financial institution shall notify a consumer in writing at least twenty-one days prior to the effective date of any change in any term or condition of the consumer's account required to be disclosed under subsection (a) if such change would result in greater cost or liability for such consumer or decreased access to the consumer's account. A financial institution may, however, implement a change in the terms or conditions of an account without prior notice when such change is immediately necessary to maintain or restore the security of an electronic fund transfer system or a consumer's account. Subject to subsection (a)(3), the Board shall require subsequent notification if such a change is made permanent.

"(c) For any account of a consumer made accessible to electronic fund transfers prior to the effective date of this title, the information required to be disclosed to the consumer under subsection (c) shall be disclosed not later than the earlier of—

"(1) the first periodic statement required by section 906(c) after the effective date of this title; or

"(2) thirty days after the effective date of this title.

"§ 906. Documentation of transfers; periodic statements

"(a) For each electronic fund transfer initiated by a consumer from an electronic terminal, the financial institution holding such consumer's account shall, directly or indirectly, at the time the transfer is initiated, make available to the consumer written documentation of such transfer. The documentation shall clearly set forth to the extent applicable—

"(1) the amount involved and date the transfer is initiated;

"(2) the type of transfer;

"(3) the identity of the consumer's account with the financial institution from which or to which funds are transferred;

"(4) the identity of any third party to whom or from whom funds are transferred; and

"(5) the location or identification of the electronic terminal involved.

"(b) For a consumer's account which is scheduled to be credited by a preauthorized electronic fund transfer from the same payor at least once in each successive sixty-day period, except where the payor provides positive notice of the transfer to the consumer, the financial institution shall elect to provide promptly either positive notice to the consumer when the credit is made as scheduled, or negative notice to the consumer when the credit is not made as scheduled. In accordance with regulations of the Board, the means of notice elected shall be disclosed to the consumer in accordance with section 905.

"(c) A financial institution shall provide each consumer with a periodic statement for each account of such consumer that may be accessed by means of an electronic fund transfer. Except as provided in subsection (d) and (e), such statement shall be pro-

vided at least monthly for each monthly or shorter cycle in which an electronic fund transfer affecting the account has occurred, or every three months, whichever is more frequent. The statement, which may include information regarding transactions other than electronic fund transfers, shall clearly set forth—

"(1) with regard to each electronic fund transfer during the period, the information described in subsection (a), which may be provided on an accompanying document;

"(2) the amount of any fee or charge assessed by the financial institution during the period for electronic fund transfers or for account maintenance;

"(3) the balances in the consumer's account at the beginning of the period and at the close of the period; and

"(4) the address and telephone number to be used by the financial institution for the purpose of receiving any statement inquiry or notice of account error from the consumer. Such address and telephone number shall be preceded by the caption 'Direct Inquiries To:' or other similar language indicating that the address and number are to be used for such inquiries or notices.

"(d) In the case of a consumer's passbook account which may not be accessed by electronic fund transfers other than preauthorized electronic fund transfers crediting the account, a financial institution may, in lieu of complying with the requirements of subsection (c), upon presentation of the passbook provide the consumer in writing with the amount and date of each such transfer involving the account since the passbook was last presented.

"(e) In the case of a consumer's account, other than a passbook account, which may not be accessed by electronic fund transfers other than preauthorized electronic fund transfers crediting the account, the financial institution may provide a periodic statement on a quarterly basis which otherwise complies with the requirements of subsection (c).

"(f) In any action involving a consumer, any documentation required by this section to be given to the consumer which indicates that an electronic fund transfer was made to another person shall be admissible as evidence of such transfer and shall constitute prima facie proof that such transfer was made.

"§ 907. Preauthorized transfers

"(a) A preauthorized electronic fund transfer from a consumer's account may be authorized by the consumer only in writing, and a copy of such authorization shall be provided to the consumer when made. A consumer may stop payment of a preauthorized electronic fund transfer by notifying the financial institution orally or in writing at any time up to three business days preceding the scheduled date of such transfer. The financial institution may require written confirmation to be provided to it within fourteen days of an oral notification if, when the oral notification is made, the consumer is advised of such requirement and the address to which such confirmation should be sent.

"(b) In the case of preauthorized transfers from a consumer's account to the same person which may vary in amount, the financial institution or designated payee shall, prior to each transfer, provide reasonable advance notice to the consumer, in accordance with regulations of the Board, of the amount to be transferred and the scheduled date of the transfer.

"§ 908. Error resolution

"(a) If a financial institution, within sixty days after having transmitted to a consumer documentation pursuant to section 906(a), (c), or (d) or notification pursuant to section 906(b), receives oral or written notice in which the consumer—

"(1) sets forth or otherwise enables the financial institution to identify the name and account number of the consumer;

"(2) indicates the consumer's belief that the documentation, or, in the case of notification pursuant to section 906(b), the consumer's account, contains an error and the amount of such error; and

"(3) sets forth the reasons for the consumer's belief (where applicable) that an error has occurred,

the financial institution shall investigate the alleged error, determine whether an error has occurred, and report or mail the results of such investigation and determination to the consumer within ten business days. The financial institution may require written confirmation to be provided to it within 10 business days of an oral notification of error if, when the oral notification is made, the consumer is advised of such requirement and the address to which such confirmation should be sent. A financial institution which requires written confirmation in accordance with the previous sentence need not provisionally recredit a consumer's account in accordance with subsection (c), nor shall the financial institution be liable under subsection (e), if the written confirmation is not received within the ten day period referred to in the previous sentence.

"(b) If the financial institution determines that an error did occur, it shall promptly, but in no event more than one business day after determination, correct the error, subject to section 909, including the crediting of interest where applicable.

"(c) If a financial institution receives notice of an error in the manner and within the time period specified in subsection (a), it may, in lieu of the requirements of subsections (a) and (b), within ten business days after receiving such notice provisionally recredit the consumer's account for the amount alleged to be in error, subject to section 909, including interest where applicable, pending the conclusion of its investigation and its determination of whether an error has occurred. Such investigation shall be concluded not later than forty-five days after receipt of notice of the error. During the pendency of the investigation, the consumer shall have full use of the funds provisionally recredited.

"(d) If the financial institution determines after its investigation pursuant to subsection (a) or (c) that an error did not occur, it shall deliver or mail to the consumer an explanation of its findings within 3 business days after the conclusion of its investigation, and upon request of the consumer promptly deliver or mail to the consumer reproductions of all documents which the financial institution relied on to conclude that such error did not occur. The financial institution shall include notice of the right to request reproductions with the explanation of its findings.

"(e) If in any action under section 915, the court finds that—

"(1) the financial institution did not provisionally recredit a consumer's account within the ten-day period specified in subsection (c), and the financial institution (A) did not make a good faith investigation of the alleged error, or (B) did not have a reasonable basis for believing that the consumer's account was not in error; or

"(2) the financial institution knowingly and willfully concluded that the consumer's account was not in error when such conclusion could not reasonably have been drawn from the evidence available to the financial institution at the time of its investigation, then the consumer shall be entitled to treble damages determined under section 915(a)(1).

"(f) For the purpose of this section, an error consists of—

October 14, 1978

- (1) an unauthorized electronic fund transfer;
- (2) an incorrect electronic fund transfer from or to the consumer's account;
- (3) the condition for a periodic statement of an electronic fund transfer affecting the consumer's account which should have been included;
- (4) a computational error by the financial institution;
- (5) the consumer's receipt of an incorrect amount of money from an electronic terminal;
- (6) a consumer's request for additional information or clarification concerning an electronic fund transfer or any documentation required by this title; or
- (7) any other error described in regulations of the Board.

§ 909. Consumer liability for unauthorized transfers

"(a) A consumer shall be liable for any unauthorized electronic fund transfer involving the account of such consumer only if the card or other means of access utilized for such transfer was an accepted card or other means of access and if the issuer of such card, code, or other means of access has provided a means whereby the user of such card, code, or other means of access can be identified as the person authorized to use it, such as by signature, photograph, or fingerprint or by electronic or mechanical confirmation. In no event, however, shall a consumer's liability for an unauthorized transfer exceed the lesser of—

- "(1) \$50; or
- "(2) the amount of money or value of property or services obtained in such unauthorized electronic fund transfer prior to the time the financial institution is notified of, or otherwise becomes aware of, circumstances which lead to the reasonable belief that an unauthorized electronic fund transfer involving the consumer's account has been or may be effected. Notice under this paragraph is sufficient when such steps have been taken as may be reasonably required in the ordinary course of business to provide the financial institution with the pertinent information, whether or not any particular officer, employee, or agent of the financial institution does in fact receive such information.

Notwithstanding the foregoing, reimbursement need not be made to the consumer for losses the financial institution establishes would not have occurred but for the failure of the consumer to report within sixty days of transmittal of the statement (or in extenuating circumstances such as extended travel or hospitalization, within a reasonable time under the circumstances) any unauthorized electronic fund transfer or account error which appears on the periodic statement provided to the consumer under section 906.

In addition, reimbursement need not be made to the consumer for losses which the financial institution establishes would not have occurred but for the failure of the consumer to report any loss or theft of a card or other means of access within two business days after the consumer learns of the loss or theft (or in extenuating circumstances such as extended travel or hospitalization, within a longer period which is reasonable under the circumstances), but the consumer's liability under this subsection in any such case may not exceed a total of \$500, or the amount of unauthorized electronic fund transfers which occur following the close of two business days (or such longer period) after the consumer learns of the loss or theft but prior to notice to the financial institution under this subsection, whichever is less.

"(b) In any action which involves a consumer's liability for an unauthorized electronic fund transfer the burden of proof

is upon the financial institution to show that the electronic fund transfer was authorized or if the electronic fund transfer was unauthorized, then the burden of proof is upon the financial institution to establish that the conditions of liability set forth in subsection (a) have been met, and, if the transfer was initiated after the effective date of section 905, that the disclosures required to be made to the consumer under section 905(a) (1) and (2) were in fact made in accordance with such section.

"(c) In the event of a transaction which involves both an unauthorized electronic fund transfer and an extension of credit as defined in section 103(e) of this Act pursuant to an agreement between the consumer and the financial institution to extend such credit to the consumer in the event the consumer's account is overdrawn, the limitation on the consumer's liability for such transaction shall be determined solely in accordance with this section.

"(d) Nothing in this section imposes liability upon a consumer for an unauthorized electronic fund transfer in excess of his liability for such a transfer under other applicable law or under any agreement with the consumer's financial institution.

"(e) Except as provided in this section, a consumer incurs no liability from an unauthorized electronic fund transfer.

§ 910. Liability of financial institutions

"(a) Subject to subsections (b) and (c), a financial institution shall be liable to a consumer for all damages proximately caused by—

- "(1) the financial institution's failure to make an electronic fund transfer, in accordance with the terms and conditions of an account, in the correct amount or in a timely manner when properly instructed to do so by the consumer, except where—
- "(A) the consumer's account has insufficient funds;
- "(B) the funds are subject to legal process or other encumbrance restricting such transfer;
- "(C) such transfer would exceed an established credit limit;
- "(D) an electronic terminal has insufficient cash to complete the transaction; or
- "(E) as otherwise provided in regulations of the Board;
- "(2) the financial institution's failure to make an electronic fund transfer due to insufficient funds when the financial institution failed to credit, in accordance with the terms and conditions of an account, a deposit of funds to the consumer's account which would have provided sufficient funds to make the transfer; and
- "(3) the financial institution's failure to stop payment of a preauthorized transfer from a consumer's account when instructed to do so in accordance with the terms and conditions of the account.

"(b) A financial institution shall not be liable under subsection (a) (1) or (2) if the financial institution shows by a preponderance of the evidence that its action or failure to act resulted from—

"(1) an act of God or other circumstance beyond its control, that it exercised reasonable care to prevent such an occurrence, and that it exercised such diligence as the circumstances required; or

"(2) a technical malfunction which was known to the consumer at the time he attempted to initiate an electronic fund transfer or, in the case of a preauthorized transfer, at the time such transfer should have occurred.

"(c) In the case of a failure described in subsection (c) which was not intentional and which resulted from a bona fide error, notwithstanding the maintenance of procedures reasonably adapted to avoid any such error, the financial institution shall be liable for actual damages proved.

§ 911. Insurance of cards or other means of access

"(a) No person may issue to a consumer any card, code, or other means of access to such consumer's account for the purpose of initiating an electronic fund transfer other than—

"(1) in response to a request or application therefor; or

"(2) as a renewal of, or in substitution for, an accepted card, code, or other means of access, whether issued by the initial issuer or a successor.

"(b) Notwithstanding the provisions of subsection (a), a person may distribute to a consumer on an unsolicited basis a card, code, or other means of access for use in initiating an electronic fund transfer from such consumer's account, if—

"(1) such card, code, or other means of access is not validated;

"(2) such distribution is accompanied by a complete disclosure, in accordance with section 905, of the consumer's rights and liabilities which will apply if such card, code, or other means of access is validated;

"(3) such distribution is accompanied by a clear explanation, in accordance with regulations of the Board, that such card, code, or other means of access is not validated and how the consumer may dispose of such card, code, or other means of access if validation is not desired; and

"(4) such card, code, or other means of access is validated only in response to a request or application from the consumer, upon verification of the consumer's identity.

"(c) For the purpose of subsection (b), a card, code, or other means of access is validated when it may be used to initiate an electronic fund transfer.

§ 912. Suspension of obligations

"If a system malfunction prevents the effectuation of an electronic fund transfer initiated by a consumer to another person, and such other person has agreed to accept payment by such means, the consumer's obligation to the other person shall be suspended until the malfunction is corrected and the electronic fund transfer may be completed, unless such other person has subsequently, by written request, demanded payment by means other than an electronic fund transfer.

§ 913. Compulsory use of electronic fund transfers

"No person may—

"(1) condition the extension of credit to a consumer on such consumer's repayment by means of preauthorized electronic fund transfers; or

"(2) require a consumer to establish an account for receipt of electronic fund transfers with a particular financial institution as a condition of employment or receipt of a governmental benefit.

§ 914. Waiver of rights

"No writing or other agreement between a consumer and any other person may contain any provision which constitutes a waiver of any right conferred or cause of action created by this title. Nothing in this section prohibits, however, any writing or other agreement which grants to a consumer a more extensive right or remedy or greater protection than that contained in this title or a waiver given in settlement of a dispute or action.

§ 915. Civil liability

"(a) Except as otherwise provided by this section and section 910, any person who fails to comply with any provision of this title with respect to any consumer, except for an error resolved in accordance with section 908, is liable to such consumer in an amount equal to the sum of—

"(1) any actual damage sustained by such consumer as a result of such failure;

"(2) (A) in the case of an individual action

an amount not less than \$100 nor greater than \$1,000; or

"(B) in the case of a class action, such amount as the court may allow, except that (1) as to each member of the class no minimum recovery shall be applicable, and (2) the total recovery under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same person shall not be more than the lesser of \$500,000 or 1 per centum of the net worth of the defendant; and

"(3) in the case of any successful action to enforce the foregoing liability, the costs of the action, together with a reasonable attorney's fee as determined by the court.

"(b) In determining the amount of liability in any action under subsection (a), the court shall consider, among other relevant factors—

"(1) in any individual action under subsection (a)(2)(A), the frequency and persistence of noncompliance, the nature of such noncompliance, the resources of the defendant, the number of persons adversely affected, and the extent to which the noncompliance was intentional; or

"(2) in any class action under subsection (a)(2)(B), the frequency and persistence of noncompliance, the nature of such noncompliance, the resources of the defendant, the number of persons adversely affected, and the extent to which the noncompliance was intentional.

"(c) Except as provided in section 910, a person may not be held liable in any action brought under this section for a violation of this title if the person shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

"(d) No provision of this section or section 916 imposing any liability shall apply to—

"(1) any act done or omitted in good faith in conformity with any rule, regulation, or interpretation thereof by the Board or in conformity with any interpretation or approval by an official or employee of the Federal Reserve System duly authorized by the Board to issue such interpretations or approvals under such procedures as the Board may prescribe therefor; or

"(2) any failure to make disclosure in proper form if a financial institution utilized an appropriate model clause issue by the Board,

notwithstanding that after such act, omission, or failure has occurred, such rule, regulation, approval, or model clause is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

"(e) A person has no liability under this section for any failure to comply with a requirement under this title if, prior to the institution of an action under this section, the person notifies the consumer concerned of the failure, complies with the requirements of this title, and makes an appropriate adjustment to the consumer's account and pays actual damages or, where applicable, damages in accordance with section 910.

"(f) On a finding by the court that an unsuccessful action under this section was brought in bad faith or for purposes of harassment, the court shall award to the defendant attorney's fees reasonable in relation to the work expended and costs.

"(g) Without regard to the amount in controversy, any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation.

§ 916 Criminal liability

"(a) Whoever knowingly and willfully—

"(1) gives false or inaccurate information

or fails to provide information which he is required to disclose by this title or any regulation issued thereunder; or

"(2) otherwise fails to comply with any provision of this title;

shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

"(b) Whoever—

"(1) knowingly, in a transaction affecting interstate or foreign commerce, uses or attempts or conspires to use any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument to obtain money, goods, services, or anything else of value which within any one-year period has a value aggregating \$1,000 or more; or

"(2) with unlawful or fraudulent intent, transports or attempts or conspires to transport in interstate or foreign commerce a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

"(3) with unlawful or fraudulent intent, uses any instrumentality of interstate or foreign commerce to sell or transport a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

"(4) knowingly receives, conceals, uses, or transports money, goods, services, or anything else of value (except tickets for interstate or foreign transportation) which (A) within any one-year period has a value aggregating \$1,000 or more, (B) has moved in or is part of, or which constitutes interstate or foreign commerce, and (C) has been obtained with a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument; or

"(5) knowingly receives, conceals, uses, sells, or transports in interstate or foreign commerce one or more tickets for interstate or foreign transportation, which (A) within any one-year period have a value aggregating \$500 or more, and (B) have been purchased or obtained with one or more counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument; or

"(6) in a transaction affecting interstate or foreign commerce, furnishes money, property, services, or anything else of value, which within any one-year period has a value aggregating \$1,000 or more, through the use of any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained debit instrument knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained—

shall be fined not more than \$10,000 or imprisoned not more than ten years, or both.

"(c) As used in this section, the term 'debit instrument' means a card, code, or other device, other than a check, draft, or similar paper instrument, by the use of which a person may initiate an electronic fund transfer.

§ 917 Administrative enforcement

"(a) Compliance with the requirements imposed under this title shall be enforced under—

"(1) section 8 of the Federal Deposit Insurance Act, in the case of—

"(A) national banks, by the Comptroller of the Currency;

"(B) member banks of the Federal Reserve System (other than national banks), by the Board;

"(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation;

"(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(1) and 17 of

the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions;

"(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union.

"(4) the Federal Aviation Act of 1958, by the Civil Aeronautics Board, with respect to any air carrier or foreign air carrier subject to that Act; and

"(5) the Securities Exchange Act of 1934, by the Securities and Exchange Commission, with respect to any broker or dealer subject to that Act.

"(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

"(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person subject to the jurisdiction of the Commission with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional test in the Federal Trade Commission Act."

§ 918. Reports to Congress

"(a) Not later than twelve months after the effective date of this title and at one year intervals thereafter, the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with this title is being achieved and a summary of the enforcement action taken under section 917 of this title. In such report, the Board shall particularly address the effects of this title on the costs and benefits to financial institutions and consumers, on competition, on the introduction of new technology, on the operations of financial institutions, and on the adequacy of consumer protection. The report of the Attorney General shall also contain an analysis of the impact of this title on the operation, workload, and efficiency of the Federal courts.

"(b) In the exercise of its functions under this title, the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of persons subject to this title.

§ 919 Relation to State laws

"This title does not annul, alter, or affect the laws of any State relating to electronic



STATE OF MARYLAND
STATE TREASURER
State Treasury Building Annapolis, Maryland 21404

Phone: 267-5533-34-35-36

FROM: Mr. M. Starkey DATE: July 14, 1976
TO: Mr. E. J. Schamel RE: Direct Deposit Payroll

The following facts with reference to Baltimore City's Direct Deposit Payroll System were garnered from a meeting with Mr. Harry Deitchman, Disbursement and Payroll Supervisor for the Baltimore City Department of Finance, on June 28, 1976.

Participation Rate: Of the 52,000 total individuals on Baltimore City's current payroll files, slightly over 42,000 have been offered the opportunity to participate in the Direct Deposit system. The current participation rate by payroll grouping is as follows:

<u>Group</u>	<u>Total Employees</u>	<u>Direct Deposit Participants</u>	<u>Percent Participating</u>
Fire Department	2,263	822	36%
Hospital & Libraries	2,386	468	20%
Group # 1 - Dept. of Finance, Mayor's Office-primarily white collar	5,090	1,061	21%
Group #2 - Primarily Police Department	5,647	1,342	24%
Group #3 - Health Dept., Dept. of Transit & Traffic, Div. of Corrections-Primarily White collar	3,901	755	19%
School Teachers	11,706	3,026	26%
School Employees	4,855	476	10%
Pension & Retired	6,448	606	9%
TOTALS	42,296	8,556	20%

FROM: Mr. M. Starkey
TO: Mr. E. J. Schamel
DATE: July 14, 1976

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Not all the payroll groups indicated were given the option of joining the Direct Deposit system at its inception, approximately one year ago. Roughly 13,600 employees had been offered the option as of September 1975, with 22% electing said option. Little change in the overall participation rate has been noted as additional groups were added, as evidenced by the current 20% rate. Participation rates within each group have remained relatively stable.

Attempting to establish participation rates for "white collar" workers vs. "blue collar" from available figures is difficult at best. In addition, certain distinctions that are possible would be misleading in applying same to State operations. As an example, the Fire Department for Baltimore City shows the highest participation rate. Such a rate could not be applied in projecting State "blue collar" participation, since the Direct Deposit Payroll is inherently advantageous to alternating shift workers. The amalgamous nature of the other Baltimore City payroll categories also prevents meaningful occupational distinctions. Considering the diversity of occupations within Baltimore City's participant group, the overall participation rate would seem to be a reasonable expectation for the State of Maryland as well.

At this point, Mr. Deitchman does not believe any additional payroll groups will be given the opportunity to join the new payroll system. Those additional groups total approximately 8,500 workers, primarily in "blue collar" classifications (Departments of Sanitation, Highway, Recreation and Parks), and part-time employees.

Mr. Deitchman advised that despite a vigorous program to explain the new payroll system and its advantages to City employees, as indicated previously, the participation rate has remained stable and is below their original expectations. He observed that the most frequent complaint from employees was the loss of confidentiality. Efforts to alleviate this problem (arrangements with banks to hold deposit receipts rather than mailing, promoting separate non-joint checking accounts, etc.) have had little noticeable effect in increasing participation.

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TO: Mr. E. J. Schamel
DATE: July 14, 1976

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Mr. Deitchman advised that no cost study has been started, as yet, to weigh the savings realized with the new system vs. the areas of increased cost for same. A reduction of one employee in the Bank Reconciliation Staff was mentioned, as was a probable increase in data processing cost, though no specifics were given. He advised that a formal cost study would probably be done in the near future.

Mr. Lawrence Daley, Deputy Treasurer for Baltimore City, advised that no figures had been compiled to arrive at the loss of investment income resulting from the new payroll system. The new system requires the City to deposit in the controlling bank the full amount of a payroll, one day prior to the payroll date. Under the standard payroll system, the City made such deposits on the payroll date. Considering the fact that the City did not make deposits to cover a payroll over an extended period as does the State, implementation of the Direct Deposit Payroll has meant a loss of one day's investment income on that portion of any net payroll under the new system. Although mention was made of compensating balance requirements being the reason for depositing the full amount of a payroll rather than making partial deposits as does the State, their justification remains unclear to me. It suffices to say that, given the payroll deposit procedures as mentioned, the City of Baltimore lost proportionately less investment money in changing to the Direct Deposit Payroll, than would the State in implementing the system.

It must be noted that both Mr. Deitchman and Mr. Daley emphasized that cost was less a factor in their decision than were expected advantages in the area of clerical workload. They pointed out that the number of stop-payments, and lost and stolen checks, have, in fact, been reduced as a result of the new system. Such reductions, they noted, have made the bank

FROM: Mr. M. Starkey
TO: Mr. E. J. Schamel
DATE: July 14, 1976

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reconciliation process more efficient, and a staff reduction of one individual has been realized. They emphasized that they were not only concerned with developing a system that the City could administer more efficiently, but also were concerned with benefits to the employee. The expected benefits for the City and for the participating employees, they feel, have been realized.

The indications were that the City was pleased with the control bank's cooperation, with some exceptions. The control bank is now asking that the full net payroll amount be deposited one day prior to the pay date. The City contends that the contract calls for such early deposits only for the Direct Deposit portion of any payroll. Mr. Deitchman believes the contract to be explicit enough in the City's favor to preclude any protracted debate on the issue. The only other problem area mentioned relative to the bank's cooperation, concerned the bank's efforts to promote the new system as provided for in the contract. Although I did not pursue specifics, a lack of serious effort by the bank was mentioned. No problems were noted in the area of adjustments to employee Direct Deposit checking accounts (due to overpayments, etc.). The City has provided the bank with a guarantee against financial liability to secure the bank's cooperation in making such adjustments, the City assuming said liability.

Although the participation rate is below their expectations, Mr. Deitchman and Mr. Daley both are generally pleased with the Direct Deposit Payroll system as it is now operating. In Mr. Daley's opinion, the 20% rate of employee participation provides sufficient advantages to justify any reasonable net cost increase in operating under the new system vs. the old.

MS:lcm

THIS PERIOD PAY	REGULAR EARNINGS	OVERTIME	ADJUSTMENT TO GROSS	GROSS PAY	DEFERRED INCOME	TAXABLE GROSS	ADJUSTMENT TO NET			
	FEDERAL TAX	STATE TAX	SOCIAL SECURITY	PENSION	BLUE CROSS	CREDIT UNION	TOTAL OTHER DEDUCTIONS			
DETACH AND RETAIN FOR YOUR RECORD							NET CHECK			
DEPARTMENT LOCATION		NOT NEGOTIABLE				DATE				
SOCIAL SECURITY NUMBER						VACATION		SICK LEAVE	PER. LEAVE	
FED. TA. STATE EA. RES. CODE						REFERENCE CHECK NUMBER				
TO YEAR	GROSS PAY	DEFERRED INCOME	SAVINGS BOND BALANCE	DEDUCTIONS	CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT
	FEDERAL TAX	STATE TAX	SOCIAL SECURITY		CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT
					CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT

**MAYOR AND CITY COUNCIL OF BALTIMORE
STATEMENT OF EARNINGS AND DEDUCTIONS**

THIS PERIOD PAY	REGULAR EARNINGS	OVERTIME	ADJUSTMENT TO GROSS	GROSS PAY	DEFERRED INCOME	TAXABLE GROSS	ADJUSTMENT TO NET			
	FEDERAL TAX	STATE TAX	SOCIAL SECURITY	PENSION	BLUE CROSS	CREDIT UNION	TOTAL OTHER DEDUCTIONS			
DIRECT DEPOSIT FORM RETAIN FOR YOUR RECORDS						DEPOSITED TO YOUR ACCOUNT →	NET AMOUNT			
DEPARTMENT LOCATION		NOT NEGOTIABLE				DATE				
SOCIAL SECURITY NUMBER						VACATION		SICK LEAVE	PER. LEAVE	
FED. CR. STATE EA. RES. CODE						BANK NUMBER				
TO YEAR	GROSS PAY	DEFERRED INCOME	SAVINGS BOND BALANCE	DEDUCTIONS	CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT
	FEDERAL TAX	STATE TAX	SOCIAL SECURITY		CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT
					CODE	AMOUNT	CODE	AMOUNT	CODE	AMOUNT

**MAYOR AND CITY COUNCIL OF BALTIMORE
STATEMENT OF EARNINGS AND DEDUCTIONS**

COUNTY CODE

01 - ALLEGANY
 02 - ANNE ARUNDEL
 03 - BALTIMORE
 04 - BALTIMORE CITY
 05 - CALVERT
 06 - CAROLINE
 07 - CARROLL
 08 - CECIL
 09 - CHARLES
 10 - DORCHESTER
 11 - FREDERICK
 12 - GARRETT
 13 - HARFORD
 14 - HOWARD
 15 - KENT
 16 - MONTGOMERY
 17 - PRINCE GEORGES
 18 - QUEEN ANNES
 19 - ST. MARYS
 20 - SOMERSET
 21 - TALBOT
 22 - WASHINGTON
 23 - WICOMICO
 24 - WORCESTER
 25 - OUT-OF-STATE

DEDUCTION CODESINSURANCE

CMI - CMEA
 EMI - EDUCATORS MUTUAL
 HMI - HORACE MANN
 PLI - POLICE LIFE
 SCI - SCM
 UTI - UNITED TCHRS. OF BALTO.

CHARITIES

CHA - CICHA
 JA - JOINT APPEAL

DUES

CFF - CDMM CDLL FAC FED.
 CMD - CMEA
 FFU - FIRE FIGHT UNION
 FOP - FRAT. ORDER POLICE
 FOU - FIRE OFF. UNION
 MAP - MGR. & PROF. SOCIETY
 MOP - MD. ANTI-POVERTY UN
 MNA - MD. NURSES ASSOC.
 MSS - MD. SOC. SERV. UNION
 PSA - PSASA
 PST - PSTA
 REA - BALTO. CITY RET. EMP. ASSOC
 SCM - STATE, CO., MUNICIPAL
 UTB - UNITED TCHRS. OF BALTO
 YBU - VULCAN BLAZERS UNION

SAVINGS & BENEFICIALS

FBA - FIRE BENE ASSOC.
 PBA - POLICE BENE ASSOC
 PWF - POLICE WIDOWS FUND
 SB - SAVINGS BONDS
 SHF - STATION HOUSE FUNDS

MISC.

FA - FAM. ASST.
 FTL - FED. TAX LIAB.
 MGE - MILEAGE
 RNT - ROOM RENT
 STL - ST. TAX LIAB

Please be sure to verify your social security number with your official card and notify your department if any error. An error in number will result in loss of credit and may seriously affect your benefits in the future.

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(Type in)



STATE OF MARYLAND
STATE TREASURER
State Treasury Building Annapolis, Maryland 21404

Phone: 267-5533-34-35-36

FROM: M. Starkey

DATE: June 12, 1978

TO: E. J. Schamel

RE: Direct Deposit Payroll System - Baltimore City

On June 28, 1976 data on Baltimore City's Direct Deposit Payroll System was obtained from Mr. Harry Deitchman, Disbursement and Payroll Supervisor for the City's Department of Finance and was outlined in my memo of July 14, 1976. The following information, recently obtained from Mr. Deitchman, updates the more important aspects of that system.

Participation by Baltimore City employees in the Direct Deposit Payroll System as of May 8, 1978 is detailed as follows:

<u>Payroll Group</u>	<u>Total Employees</u>	<u>Direct Deposit Participants</u>	<u>Percent Participating</u>
Fire Dept.	2,169	918	42%
City Hospitals & Libraries	2,905	555	19%
Group #1-Dept. of Finance, Mayor's Office - Primarily white collar	6,731	1,298	19%
Group #2-Primarily Police Dept.	5,200	1,429	27%
Group #3-Health Dept. Dept. of Transit & Traffic, Div of Corrections - Primarily white collar	3,551	885	25%
School Teachers	10,827	3,842	35%
School Employees	5,222	663	13%
Pensioned & Retired	7,070	801	11%
Para-Professional (part-time workers)	4,052	113	3%

E. J. Schamel
June 12, 1978
Page 2

	<u>Total Employees</u>	<u>Direct Deposit Participants</u>	<u>Percent Participating</u>
Totals as of 5/8/78	47,727	10,504	22%
Change from 6/76	+5,431	+1,948	+2%

The para-professional group is the only new group of employees since June, 1976 to be given the option of joining the direct deposit pay system. The low rate of participation among this group of part-time workers is worthy of note. Were they to be excluded from the above totals, the overall participation rate would have increased by 4% since June, 1976.

The largest rate of participation increase from the prior study period was among school teachers. Mr. Deitchman attributed the 9% increase in this group in large part to school closings (due to inclement weather) occurring on scheduled pay days.

Supporting the fact that the direct deposit payroll program is particularly advantageous to alternating shift workers is the 6% increase in the participation rate among Fire Department employees. This group continues to have the largest rate of participation.

Despite continued promotion, which now includes a formal orientation session for new employees covering the direct deposit payroll alternative, Mr. Deitchman does not believe that more than a 2% increase in the overall participation rate can be expected in the future.

No additional payroll groups are expected to be given the option of joining the direct deposit system. Anticipated problems in administering the direct deposit program for employees paid on an hourly basis prevents their being given the option of joining.

It was previously reported that the control bank had asked that the full net payroll amount be deposited one

E. J. Schamel
June 12, 1978
Page 3

day prior to the pay date. This controversy has been resolved - the City depositing only the direct deposit portion one day prior to the pay date, in accordance with contract provisions.

Mr. Deitchman advised that delays of up to five days have been experienced in recovering direct deposit funds distributed in error to other than the control bank. Given the overall benefits of the system, however, he did not view these occurrences as a serious problem.

My previous report indicated that Baltimore City had not done a cost study on their direct deposit payroll system, but that a study would probably be done in the future. Mr. Lawrence Daley, Deputy Treasurer for Baltimore City, advised on June 8, 1978 that no cost study has been done, nor is any anticipated. He reiterated the fact that the decision to install the direct deposit system was based on expected administrative advantages and on the anticipated advantages for City employees. Mr. Deitchman emphasized that the reduction in the number of stop-payments, and lost and stolen checks has significantly reduced the administrative problems associated therewith. Mr. Daley believes that the advantages indicated, coupled with the benefits to participating City employees, fully justifies any net cost increase that may exist in administering two payroll systems. The elimination of one position in the bank reconciliation department and a reduction in the number of checks issued were mentioned as areas of cost savings. However, no analysis of investment income loss has been done, nor has information been compiled in other areas of expense that may have increased as a result of the new payroll system.

Although the overall employee participation rate remains below original expectations, both Mr. Deitchman and Mr. Daley indicate that the anticipated benefits of the direct deposit payroll system have been realized.

STATE OF MARYLAND
STATE TREASURER
State Treasury Building Annapolis, Maryland 21404

Phone: 267-5533-34-35-36



DATE: June 22, 1976

FROM: M. Starkey

TO: E. Schamel

RE: Direct Deposit Payroll

In viewing the operational cost considerations of a change to the referenced payroll system, the only cost factor that can be developed with some degree of confidence at this time is in the area of dollar float loss. This loss of float is one of four major cost areas, the others being forms cost, data processing cost, and plan implementation cost.

Payroll and Data Processing personnel indicate that no formal cost studies on the Direct Deposit Payroll have begun. In August of 1975 at a meeting of the Joint Committee on the Management of Public Funds, Robert Serviss of the Central Payroll Bureau, estimated initial changeover costs of \$250,000. Michael Coffin of the Data Processing Division has advised that no specific directive had been issued to date to pursue data processing estimates as a result of the Joint Committee's study. The discussion with Mr. Coffin confirmed my analysis of what the major elements in a Data Processing cost study would be: Estimates relative to the new system, and estimates relative to maintenance of the old system in modified form since less than 100% employee participation in the new system would exist.

Information relative to forms cost (a payroll receipt issued in lieu of a paycheck) has not been developed. Hence, the estimate of \$25,481.47 total cost for 1,870,886 paychecks issued per year cannot at this point be weighed against the forms cost for the receipts.

The cost of dollar float loss under the new system can be presented at this time. For the period January through May, 1976 the average monthly interest earned from the Union Trust account was \$5,549.65. This was achieved despite a daily blotter balance that averaged minus \$2,071,156. Assuming 100% employee participation for ease in analysis, one check would be issued on each payroll date to the control bank for the entire net amount of the payroll. Maintaining a zero balance relative to payrolls, as would occur, no earnings would be realized from any dollar float. In addition, the minus average cash balance now carried in the Union Trust account would be eliminated,

June 22, 1976

E. Schamel

in effect reducing by a like amount total daily investments. Assuming a 4½% return on the aforementioned \$2,071,156 the interest loss per day would be \$258.89, or \$94,494.85 per year. In addition the average monthly interest currently earned with Union Trust as a result of float would be lost - \$5,549.65 per month or \$66,595.80 per year. The combined interest loss under the Direct Deposit Payroll system then becomes \$161,090.65 per year. That figure is based on 100% employee participation, and of course would be reduced by earnings on any funds maintained with Union Trust for those employees who would continue to receive a paycheck.

Given the fact of less than 100% employee participation and therefore the need to maintain two "payroll systems", the four cost areas mentioned above-Loss of Float, Forms Cost, Data Processing, and Implementation Cost - are the only significant ones in my opinion. Ultimately studies by the Central Payroll Department and by the Data Processing Division may uncover additional areas that deserve an in-depth cost analysis.

Until such time as the Central Payroll and Data Processing Departments studies are completed, no further progress toward on overall cost picture can be made. Apparently, no directive has been issued to date for them to initiate such studies.

% OF EMPLOYEES PARTICIPATING
FROM CASE STUDY

100% 50% 25%

Start Up Costs

1. Collection of Authorization forms and file maintenance..	\$ 180.	\$ 90.	\$ 45.
2. 20% of investment in modifications to payroll system ...	<u>384.</u>	<u>384.</u>	<u>384.</u>
Total	\$ 564.	\$ 474.	\$ 429.

Annual Costs

3. Bank service charges for pre-authorized credits	\$ 1,408.	\$ 704.	\$ 352.
4. Lost float	<u>4,410.</u>	<u>2,205.</u>	<u>1,103.</u>
Total	\$ 5,818.	\$ 2,909.	\$1,455.

Annual Savings

5. Bank check processing charges	\$ 4,928.	\$ 2,464.	\$1,232.
6. Bank reconciliation charges	---	---	---
6a. In-house reconciliation costs	4,928.	2,464.	1,232.
7. Bank stop-payment charges	211.	106.	53.
8. Check printing costs	211.	106.	53.
9. Estimated value of Direct Deposit as an employee benefit	8,400.	4,200.	2,100.
10. Estimated value of lost time spent in banks cashing/ depositing checks	<u>18,040.</u>	<u>9,020.</u>	<u>4,510.</u>
Total	\$36,718.	\$18,359.	\$9,180.

Net Annual Benefit

(Annual savings minus annual costs)	\$30,900.	\$15,450.	\$7,725.
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SPEAKERS APPEARING BEFORE EFTS ADVISORY PANEL

James O. Howard, Jr., Esq.
General Counsel
National Commission on EFT

Matthew Jacobs
Vice President of Data Processing
Service Center, Inc.

Herman P. Carson
Sr. V.P. of Operations
Union Trust Co. of Maryland

W. P. Stritzler
Marketing Director/Commercial Sector
AT&T

Jack Lee
Market Manager
C & P Telephone

Robert E. Hecht, Sr.
Chief Executive
Financial Management Services Corp., Inc.

Donald G. Long
Product Manager
IBM

Richard McCrossen
President
Citicorp Financial, Inc.

Robert C. Zimmer, Esquire
Zimmer, Egge & Sisk
Washington, D.C.

Patrick Portway
President
CABIN, Inc.

Raymond G. Young
Assistant to the Vice President
EFTS Corporate Development
Montgomery Ward & Co., Inc.